

## Message Text

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ORIGIN EB-07

INFO OCT-01 ISO-00 EA-06 AGR-05 CIAE-00 COME-00 INR-07

LAB-04 NSAE-00 SP-02 STR-01 TRSE-00 CIEP-01 FRB-03

OMB-01 L-02 XMB-02 AID-05 SS-15 NSC-05 /067 R

DRAFTED BY EB/ORF/ICD/FTD:JWILLIAMS:AC

APPROVED BY EA:LEEDMOND

EA/K:PMAYHEW

USDA: GRATHELL

USDA:KSTEPHENS

----- 075968

P R 072045Z MAR 75

FM SECSTATE WASHDC

TO AMEMBASSY SEOUL PRIORITY

INFO AMEMBASSY TAIPEI

AMEMBASSY MANILA

AMEMBASSY BANGKOK

C O N F I D E N T I A L STATE 051486

E.O. 11652: GDS

TAGS: EAGR, EFIN, KS, TH, RP, TW

SUBJECT: COTTON CONTRACT PROBLEM

REFERENCE: STATE 39961

FOR AMBASSADOR FROM HABIB

1. NAC HAS APPROVED 75 MILLION ADDITIONAL CCC CREDITS FOR KOREA WITH THE FOLLOWING CONDITIONS: 1) ROKG GUARANTEE REPAYMENT OF CCC CREDITS, 2) ROKG GUARANTEE THAT OUTSTANDING COTTON CONTRACTS BE HONORED AND 3) THERE BE NO ADDITIONAL CCC CREDITS FOR KOREA FOR COTTON DURING THIS FISCAL YEAR.

2. IN KOREA, ROC AND THE PHILIPPINES, WE ARE ASKING FOR "WRITTEN ASSURANCES" THAT COTTON CONTRACTS WILL BE HONORED

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IN VIEW OF ADDITIONAL CREDITS. THE WRITTEN ASSURANCES WILL

TAKE SUBSTANTIALLY THE SAME FORM IN EACH COUNTRY, ALTHOUGH VARIATIONS WILL UNDOUBTEDLY OCCUR.

3. DURING MY CONVERSATION WITH DEPUTY PRIME MINISTER NAM REPORTED REFTEL, NAM INDICATED THAT HE WOULD HOLD DISCUSSIONS WITH SWAK CONCERNING \$75 MILLION CCC CREDIT, AND THAT FOLLOWING SUCH CONVERSATIONS, HE WOULD BE PREPARED PROVIDE ASSURANCE THAT COTTON CONTRACTS WOULD BE HONORED. THESE ASSURANCES SHOULD BE IN THE FORM OF A LETTER FROM NAM

TO YOU, TEXT OF WHICH FOLLOWS, EXCLUSIVE OF COMPLIMENTARY OPENING AND CLOSINGS.

"1) ALL CCC CREDITS FOR COTTON OUTSTANDING AS OF THE DATE OF THIS LETTER OR GRANTED PRIOR TO JUNE 30, 1975, WILL BE UTILIZED EXCLUSIVELY TO FINANCE CURRENT U.S. COTTON CONTRACTS WITH A DATE OF SALE PRIOR TO AUGUST 1, 1974. THIS STIPULATION INCLUDES BOTH CONTRACTS WHICH ARE PAST DUE AS WELL AS CONTRACTS WITH DELIVERY DATES PRIOR TO THE END OF THE CURRENT MARKETING YEAR, JULY 31, 1975.

"2) THE ROK GUARANTEES THAT REPAYMENT DRAFTS, DRAWN BY CCC ON KOREAN BANKS UNDER THE APPLICABLE LETTERS OF CREDIT, WILL BE HONORED.

"3) THE ROK WILL TAKE WHATEVER MEASURES ARE NECESSARY TO ENSURE THE OPENING OF LETTERS OF CREDIT IN ACCORDANCE WITH THE FOLLOWING PROCEDURES:

--- A) ALL SALES WILL BE LISTED BY MILL.

--- B) FOR EACH MILL THE CONTRACTS WILL BE LISTED BY TYPE OF COTTON: TYPE A: 1-1/32 INCH AND SHORTER; TYPE B: 1-1/16 OR OVER; TYPE C: SAN JOAQUIN; TYPE D: AMERICAN PIMA.

--- C) UNDER EACH TYPE, SALES (CONTRACTS) WILL BE SEPARATED INTO FOUR PERIODS BASED ON THE DELIVERY DATE IN THE CONTRACT: PERIOD I - CONTRACTS WITH DELIVERY DATES PRIOR TO NOVEMBER 30, 1974, PERIOD II - CONTRACTS WITH CONFIDENTIAL

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DELIVERY DATES FROM DECEMBER 1, 1974, THROUGH FEBRUARY 28, 1975. PERIOD III - CONTRACTS WITH DELIVERY DATES FROM MARCH 1, 1975, THROUGH MAY 31, 1975. PERIOD IV - CONTRACTS WITH DELIVERY DATES FROM JUNE 1, 1975, THROUGH JULY 31, 1975.

--- D) LETTERS OF CREDIT WILL BE OPENED ON CONTRACTS WITHIN EACH OF THESE GROUPS ACCORDING TO THE FOLLOWING SCHEDULE:

SHIPMENTS DUE PRIOR TO: L/C'S WILL BE OPENED BY:

NOV. 30, 1974 (PERIOD I) APRIL 15, 1975

FEB. 28, 1975 (PERIOD II) MAY 15, 1975

MAY 31, 1975 (PERIOD III) JUNE 15, 1975

JULY 31, 1975 (PERIOD IV) ON DATE SPECIFIED IN CONTRACT

--- E) WITHIN EACH TYPE OF COTTON THE CONTRACTS  
WILL BE LISTED BY DATE OF SALE, WITH THE OLDEST DATES  
LISTED FIRST.

--- F) WITHIN THE PERIODS SPECIFIED IN PARA 3 (C )  
AND (D) ABOVE, A MILL MAY OPEN LETTERS OF CREDIT FOR ANY  
TYPE OF COTTON WHICH THE MILL HAS ON CONTRACT. WITHIN  
EACH TYPE OF COTTON INDIVIDUAL MILLS WILL OPEN LETTERS  
OF CREDIT ON THE OLDEST CONTRACTS FIRST.

-- "4) A LIST OF OUTSTANDING SALES (CONTRACTS) FOR THE  
CURRENT COTTON MARKETING YEAR, ORGANIZED IN ACCORDANCE  
WITH THE CATEGORIES SPECIFIED IN PARAGRAPHS 3 (A) THROUGH  
(F), IS ATTACHED TO THIS LETTER AS AN ANNEX. THIS LIST  
IS AS COMPLETE AS WE CAN NOW MAKE IT. HOWEVER, IT IS  
UNDERSTOOD THAT CONTRACTS WHICH MEET THE REQUIREMENTS OF  
PARAGRAPHS 1 AND 3 OF THIS LETTER SHALL BE ADDED AT A  
LATER DATE AT THE REQUEST OF THE GOVERNMENT OF REPUBLIC OF  
KOREA OR THE GOVERNMENT OF THE UNITED STATES OF AMERICA.

-- "5) THE ROK WILL ARRANGE FOR FINANCING TO BE  
PROVIDED FOR THE SALES OF U.S. COTTON LISTED IN THE ANNEX  
OF THIS LETTER, OR WILL ITSELF PROVIDE THE NECESSARY  
FINANCING, IN THOSE CASES WHERE THE SALES IN QUESTION  
CANNOT BE COVERED BY CCC CREDIT.

--- "6) THE ROK AGREES TO PROVIDE USDA, OFFICE OF THE  
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ASSISTANT ADMINISTRATOR, COMMERCIAL EXPORT PROGRAM - AFTER  
ADDITIONAL CREDIT IS MADE AVAILABLE - WITH A LIST OF SALES  
(CONTRACTS) WHICH WILL BE USED BY THE USDA TO ALLOCATE  
ALL OUTSTANDING CCC CREDIT TO U.S. SHIPPERS. EACH SALE  
WILL BE LISTED UNDER THE NAME OF THE PURCHASING MILL.  
THE LIST WILL CONTAIN THE VALUE, NUMBER OF BALES AND THE  
NAME OF THE U.S. SHIPPER FOR EACH SALE. THE LIST WILL  
INCLUDE THE AMOUNT OF THE ALLOCATION TO BE RECEIVED BY  
EACH MILL AND IDENTIFY THE INDIVIDUAL SALES COMPRISING  
EACH ALLOCATION."

4. TO AVOID SUBSEQUENT MISUNDERSTANDING, IT SHOULD BE  
CONVEYED TO THE ROK WHEN THE TEXT OF THE LETTER IS  
DELIVERED THAT:

-- A) CCC CREDIT WILL BE PROVIDED IN LINE WITH THE REGULATIONS THAT GOVERN ALL CCC CREDIT. ONE PROVISION OF THESE REGULATIONS IS THAT LETTERS OF CREDIT BE ISSUED BY A U.S. OR CCC-APPROVED BANK, AND THAT AT LEAST 10 PERCENT OF EACH LETTER OF CREDIT REGISTERED UNDER GSM-4 REGULATIONS MUST BE GUARANTEED BY A U.S. BANK FOR COMMERCIAL RISKS ONLY;

--- B) THE LETTER REQUESTED FROM THE DEPUTY PRIME MINISTER IS NOT RPT NOT A PART OF CCC REGULATIONS BUT RATHER WILL SERVE AS AN EXPRESS STATEMENT OF THE ROK'S UNDERTAKING REGARDING THE CCC CREDITS;

--- C) THE DETAILED SCHEDULE DISCUSSED IN PARA 3 (3) AND (4) OF THE PROPOSED DRAFT LETTER IS DESIGNED TO GIVE MILLS AS MUCH FLEXIBILITY AS POSSIBLE IN CHOOSING THE TYPE RPT TYPE COTTON WHICH THEY WISH TO UTILIZE FIRST. IT IS ALSO INTENDED TO INSURE THAT OVERDUE CONTRACTS ARE LIQUIDATED AT A REASONABLE RATE, WITH THE OLDEST CONTRACTS (WITHIN EACH TYPE OF COTTON) BEING LIQUIDATED FIRST.

--- D) THE ASSURANCES REQUIRED ARE NECESSARY TO MINIMI/E THE POSSIBILITY OF MILLS REFUSING TO UTILIZE THE CREDIT LINES MADE AVAILABLE TO THEM AND TO ASSURE A RAPID SOLUTION TO THE CONTRACT PROBLEM.

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-- E) YOU MAY WISH TO REASSURE KOREANS THAT PROVISION IN PARA 3 (4) THAT CONTRACTS MAY BE ADDED TO ANNEX WILL BE USED SPARINGLY BY USG AND ONLY WHEN DATE OF SALE OF CONTRACT IS PRIOR TO AUG. 1, 1974, AND DATE OF DELIVERY PRIOR TO JULY 31, 1975. PROVISION IS INTENDED TO ALLOW FOR POSSIBLE INADVERTENT OMISSIONS OF ELIGIBLE CONTRACTS FROM COMPLICATED ANNEX. WE EXPECT FEW IF ANY OMISSIONS, HOWEVER.

5. ANNEX TO LETTER IS NOW UNDER PREPARATION AND WILL FOLLOW SHORTLY. THE ANNEX IS AN ESSENTIAL PART OF THE LETTER, BUT IN VIEW OF THE IMPORTANCE WE ATTACH TO AN EARLY SOLUTION OF THIS PROBLEM, I WOULD APPRECIATE IT IF YOU WOULD DELIVER THE TEXT CITED ABOVE TO NAM TO INSURE THAT ROKG APPRECIATES CONTINUED HIGH LEVEL US CONCERN. THIS WILL PROVIDE ROKG OPPORTUNITY TO STUDY THE TEXT WHILE AWAITING ANNEX. IN ANY CASE, ANNEX SHOULD CONTAIN NO SURPRISES, SINCE KOREANS ARE PRESUMABLY AWARE OF ALL OUTSTANDING COTTON CONTRACTS.

6. FYI. WE HAVE ASKED THAT THE ASSURANCES BE CONTAINED IN A LETTER FROM NAM TO YOU, BECAUSE WE WISH TO AVOID

AN EXCHANGE OF LETTERS BETWEEN ROKG AND USG, THUS POSSIBLY  
RAISING QUESTIONS AS TO WHETHER USG WAS ASSUMING  
COMMITMENTS APART FROM EXTENSION OF CCC CREDITS. FOR THIS  
REASON, IF NAM DOES PROVIDE YOU WITH LETTER SUGGESTED  
ABOVE, YOU SHOULD NOT RPT NOT ACKNOWLEDGE IT IN WRITING.  
END FYI. INGERSOLL

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## Message Attributes

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